WAR ASSETS ADMINISTRATION
REGION 5
CHICAGO, ILLINOIS

OPERATIONS DIGEST

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Prepared
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Table 1
Operating Statement
Consumer & Capital Goods
January-November 1947

	End of Month Inventory	Acquisitions	Disposals	Recovery Rate
	$	$	$	%
January	308,887,000	2,627,000	37,438,000	26
February	318,538,000	29,167,000	19,515,000	21
March	308,477,000	12,362,000	22,417,000	22
April	306,313,000	20,623,000	22,786,000	18
May	284,432,000	-1,145,000	20,732,000	14
June	274,975,000	23,951,000	33,407,000	11
July	177,716,000	-70,024,000	27,234,000	14
August	242,052,000	83,660,000	19,320,000	16
September	245,071,000	23,645,000	20,622,000	16
October	239,436,000	12,089,000	17,725,000	15
November	216,706,000	-2,137,000	20,582,000	11

Inventories

The following major transactions were responsible for Region V's minus $2 million net acquisitions in November:

(1) Additions to inventory: (a) new declarations of $14 million, (b) a net transfer of $6 million from the suspense inventory account to the IBM inventory account, (c) a transfer of $3 million of inventory to Region V from other regions.

(2) Deductions from inventory: (a) bookkeeping adjustments of $16 million including an elimination of $12 million of duplicate listings of property from the inventory records, (b) a transfer of $9 million of inventory from Region V to other regions. The largest transfers were of warehouses #7 and #12 to the Minneapolis region.

Disposals

November was a rather average month for disposals, total disposals amounting to $20.6 million. Twenty-five per cent (25%) of this total was accounted for by a $5 million sale of gas masks. Transfers to JANMAT amounted to $2.2 million, the lowest monthly total since August. Transfers without payment to other government bodies amounted to $1.7 million, the largest since June and the second largest in the last 14 months.

Machine tools, which comprise one-third of Region V's total inventory, recorded sales of only $0.7 million in November. This was the first month in the last year that machine-tool sales dropped below $2 million. The poor November showing can be traced to two factors: (1) the large number of machine tools listed for the JANMAT program and hence unavailable for sale, (2) the extreme ineffectiveness of machine-tool offerings. Less than 3% of the machine tools offered for sale in November were sold. This low level of machine-tool sales can probably be traced to the pricing of these tools in accordance with current regulations. Drastic reductions in current fixed prices and more frequent use of the sealed-bid type of sale may be necessary if these tools are to be sold.

Recovery Rate

The regional recovery rate dropped to 11% in November, the lowest in the last 6 months. This drop was due primarily to the $5 million gas-mask sale, previously mentioned, which had a recovery rate of only one-tenth of 1%. Excluding this one sale, the regional recovery rate amounted to 15%, approximately equal to the recovery rate in each of the last 4 months.

Target

Region V's disposals in November fell approximately 50% short of the target established by the Zone office, November being the fourth successive month that the region has missed its target by a wide margin. If Region V had attained its targets in the last 4 months, its inventory would now be $115 million instead of its present $217 million.

Offerings

Less property was offered for sale in November ($41 million) than in any other month on record. Two-thirds of this $41 million consisted of machine-tool offerings. Deducting machine tools, only 9% of Region V's remaining IBM inventory was offered for sale in November. Thus, the failure to reach the November disposal target can be traced to two things: (1) the low level of regional offerings, excluding machine tools, (2) the small amount of machine tools offered which were sold.

Several factors account for the low level of regional offerings. On December 5 only $17 million of the $228 million IBM inventory was currently on sale. The remaining $211 million of inventory was distributed as follows:

(1) $65 million is withheld from sale until the Office of Stock Control and the Accounting Division can provide certain key data missing from the inventory records on this property. This $65 million is distributed among 3 categories: $14 million of

"suspense" inventory, $36 million in the "98" account, and an estimated $15 million being "reconciled" by the Office of Stock Control. Actually, a substantial part of this $65 million probably consists of "water." In other words, final reconciliation will likely show that the region does not have physical property to match some of this $65 million of unreconciled IBM inventory.

(2) $49 million of machine tools and other machinery on December 5 was withheld from sale by the JANMAT program. $11 million of this $49 million had been accepted by JANMAT and was frozen for shipment to the armed forces. The remaining $38 million was currently being reviewed by JANMAT representatives.

(3) Another $44 million was frozen and unavailable for sale. $18 million of this total was frozen at the Dodge Plant and $19 million at warehouse #21, Gary.

(4) $30 million represented recent disposals that are now being documented. When these disposals have been fully documented, this $30 million will be deducted from the IBM inventory. $15 million of this total consisted of troop sleeping-cars and $12 million of iron & steel scrap.

(5) $15 million was in the process of programming by the Office of General Disposal.

(6) $6 million was held by the Customer Service Center but not currently on sale.

(7) $2 million represented inventory withheld from sale pending reinspection by the Inspection Division.

Analysis of Sales

Since the first of the year Region V has sold its inventory at a 25% slower rate than has the average of other WAA regions. Region V has generally made its poorest showing, as compared with other regions, in selling to wholesalers. This deficiency is important since wholesalers have bought more surplus property from all WAA regions, in total, than has any other class of buyer. On the other hand, in selling to manufacturers Region V has done a better job than have other regions. In fact, if Region V had done as well in selling to other buyers as it has done in selling to manufacturers, this region would have one of the highest disposal rates of any region in the country.

Several factors explain Region V's better record in selling to manufacturers than to wholesalers. First, Region V has made most of its sales in Illinois, Indiana, and Wisconsin and these states contain a higher percentage of the nation's manufacturing industry than they do of the nation's wholesale markets. Hence, the opportunities for selling to manufacturers are greater than for selling to wholesalers within the 3 states in which Region V has made most of its sales. Second, machine tools and industrial equipment comprise a larger percentage of Region V's total inventory than they do of the inventories of most other regions. Since this machinery is more often bought by manufacturers than by wholesalers, it should be expected that Region V would make relatively more sales to manufacturers and fewer to wholesalers than do most other regions.

This analysis suggests that further efforts to attract customers from beyond the regional boundaries should improve the regional disposal rate. About 70% of the $217 million regional inventory consists of machine tools and industrial equipment, and manufacturing industry in the states within or adjacent to the region may not be able to use this much machinery, even at attractive prices. Approximately 85% to 90% of the nation's manufacturing industry lies outside of Region V's boundaries.

Intensified efforts to sell to wholesalers in states beyond the regional boundaries should also increase Region V's sales of textiles, hardware, and of similar merchandise handled by wholesalers. Other regions in the past have made a substantial percentage of their total sales to wholesalers and most of the wholesale market lies in states beyond Region V's boundaries.

Scrap

The Washington office has given a high priority to maximizing WAA's contribution toward relieving the acute shortage of iron and steel scrap in the private economy. In November Region V sold 1,800 tons of iron and steel scrap plus another 2,500 tons which were sold and billed but which will not be delivered until December. November's iron and steel scrap sales were the highest that Region V has had in the last year and represent a marked improvement over the previous 6 to 9 months. Prior to November Region V had sold only one-half as much iron and steel scrap as its share of the national WAA inventory of metal products would indicate it should have sold.

Table 2
Income & Expense
November 1947

	Millions of $
Total Income	
Capital & Consumer Goods Sales	$1.74
Real Property Sales	2.37
Rents & Interest	0.40
Total	$4.51
Total Expense	
Salaries & Wages	$0.83
Warehouse Operation Costs	0.12
Plant Clearance	0.11
Rents & Utilities	0.07
Miscellaneous Contractual Services	0.04
Reimbursements to Owning Agencies	0.04
Protection & Maintenance of Property	0.03
Supplies & Materials	0.03
Other	0.04
Total	$1.31
Excess of Income over Expense	$3.20

Regional net income declined by 18% in November, as compared with October, notwithstanding a decline in regional expense to the lowest level of any month on record. The decline in net income was due to the fact that the 3 sources of regional income--capital & consumer goods sales, real property sales, and rents & interest--were all lower in November than in October. In fact, capital & consumer goods sales in November produced the second lowest income of any month in the last 2 years. As in past months, different sales branches made vastly different contributions to this income. One sales section, clothing & apparel, holding $2 million of inventory (acquisition costs), produced $320,000 of income. Forty-three (43) other sales sections, holding $54 million of inventory, produced a total income of less than $100,000.

It is also noteworthy that the decline in income from October to November from capital & consumer goods sales occurred in spite of an increase in total sales at acquisition costs. The lower over-all recovery rate on November sales accounted for the lower income.

The lower level of November expenses arose entirely from a decline in salary and wage payments. Other expenses, on balance, increased by $31,000 from October to November.

Claims

The Washington office recently notified the regions that a rapid reduction of the backlog of unsettled claims will be a major objective of WAA policy in coming months.

Since the Washington office first notified the regions of the urgency of the claims problem last March, Region V has reduced its claims backlog at a faster rate than has the average of other regions. Moreover, in the last several months, Region V has made its biggest reduction in the backlog of older claims, and it is the reduction of this backlog which especially interests the Washington office. Older claims comprised 44% of Region V's total claims on November 30 vs. 48% on October 31 vs. 52% on September 30.

Since last June Region V has received far fewer claims, relative to its total sales, than has the average of other regions. Most claims arise from inaccurate or incomplete inventory records from which sales are made. This suggests either of two things: (1) Region V's basic inventory records are more accurate and complete than are other regions, (2) Region V is more careful to correct deficiencies in its inventory records before offering the property represented by these records for sale. The latter possibility seems most plausible since Region V's basic inventory records are still considerably incomplete as evidenced by the fact that 29% of the total IBM inventory is still in the process of reconciliation by the Accounting Division and the Office of Stock Control.

Cancelled Sales

A low volume of cancelled sales is desired for two reasons: (1) A customer who is led to cancel a sale may be so disgruntled that he will never again buy from Region V and will discourage his friends and acquaintances from doing so, (2) every cancelled sale involves unproductive expense and lost motion for Region V incurred in making and cancelling the original sale.

Far fewer sales were cancelled in both October and November than in any previous month in the last year. Cancellations were low in October and November because sales were low in August and September. This is true because, normally, several months elapse between the date on which a sale is made and the date on which the cancellation of this sale is recorded in regional accounting records; hence, most of the cancelled sales processed by the Accounting Division in October and November applied against the record low level of August and September sales.

Sales Document Backlog

Several months ago a serious backlog existed in the Traffic Division in the processing of sales documents. This backlog has been reduced about 75% in the last 4 months. The decline in the last month has been due primarily to the fact that fewer new documents have been forwarded to the Traffic Division for processing, rather than to a faster rate of processing these documents. Also, although considerable progress has been made in reducing the backlog of documents held by the Traffic Division for 2 months or more, no substantial reduction has been made in the last 2 months in reducing the backlog of documents held between 2 weeks and 2 months.

Personnel

Regional personnel on November 30 numbered 2,363, a net reduction of 74 employees from October 31. As in other recent months, a decline in "Regular" personnel accounted for the full reduction in total employees. "Schedule A" personnel increased for the third straight month. November 30th's Regular personnel numbered 1,866, this being the first time that the region has had fewer than 2,000 employees in the "Regular" classification since WAA was established 21 months ago.

Outlook for Region V

WAA Administrator Jess Larson has set June 1948 as the target date for the final liquidation of WAA. Region V will fall far short of this schedule unless its average monthly disposals in 1948 considerably exceed its average monthly disposals in 1947. In many respects, however, the outlook for the sale of surplus property in 1948 differs from the outlook in 1947. In some ways the outlook is better today than it was a year ago, but in other ways the outlook for 1948 is less favorable than it was for 1947.

The current high level of business and consumer purchasing power will probably continue through the first half of 1948. As a result, the general market for consumer and capital goods should be as good in the first half of 1948 as it was in 1947. Production and sales of both types of goods by private industry in recent months have continued to increase as the supply of many raw materials and productive capacity continued to expand.

Although Region V will generally have a poorer selection of property to offer for sale in 1948 than in 1947, the level of prices should be more conducive to the sale of surplus property in 1948 than in 1947. Private industry is today pricing its merchandise 15% higher than it was a year ago

and the prospects are for another 5% price advance in the spring after labor unions negotiate their third round of postwar wage increases. On the other hand, prices on surplus property are currently set to realize a 50% lower recovery rate than they did a year ago, and the Washington office has relaxed its pricing regulations to permit the regions more leeway in slashing prices that experience proves are too high.

In 1948 Region V will meet more vigorous competition from private firms selling related merchandise than in 1947. Private firms will have smaller backlogs of demand upon which to draw and many companies will, for the first time, give serious consideration to the impact of WAA disposals upon their own sales program. Industrial trade journals indicate that private manufacturers in their sales campaigns will stress the substantial improvements in efficiency and quality of postwar machinery and merchandise over wartime models.

So long as general business activity remains close to its present high level, Region V should find a ready market for its metal scrap. No appreciable change has occurred in the market for iron and steel scrap in the last month and this market should improve, rather than deteriorate, when the foreign-aid program takes effect in coming months. The market for non-ferrous metal scrap has also improved in recent weeks as metal refiners have sought to replenish their dwindling inventories of non-ferrous metal scrap.

U. S. Government loans to foreign countries will create substantial opportunities for the sale of United States merchandise abroad in 1948. However, Region V will have to strive more actively to sell to foreign buyers than in 1947, if it is to participate in the anticipated large sales of U. S. merchandise abroad in 1948. It should be recalled that a generally excellent export market also prevailed in the first half of 1947, but that Region V's export sales comprised only 1% of its total sales.